IAT
INTERNATIONAL AVIATION TERMINALS

IAT AIR CARGO FACILITIES INCOME FUND

ANNUAL REPORT

For the year ending December 31, 2002

IAT Air Cargo Facilities Income Fund

The IAT Air Cargo Facilities Income Fund (the "Fund") is an unincorporated, limited purpose trust established on March 15, 1997 under the laws of the Province of British Columbia that holds all of the common shares (the "Shares") of International Aviation Terminals Inc. (the "Company" or "IAT") and $53,000,000 aggregate principal amount of 12.5% unsecured subordinated notes due June 10, 2027 (the "Notes") of the Company.

IAT is in the business of developing and leasing buildings and related space at airports, which are designed for use by businesses involved in air transport services including air cargo, aircraft maintenance and ground handling. IAT leases land at airports in Vancouver, Calgary, Edmonton, Saskatoon and Winnipeg under long-term ground leases from airport authorities or the Government of Canada in these cities. It leases the facilities developed on these lands, which comprise a total of approximately 1,246,000 square feet, to approximately 140 tenants. For 2002, the average occupancy rate for all facilities was 89.4%.

The Trust Units are traded on the Toronto Stock Exchange under the symbol ACF.UN.

Cover photograph -

Aerial view of IAT multi-tenant and special-use air cargo facilities at the company's headquarters at Vancouver International Airport

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Highlights

Financial Results

	Year Ended 31 December 02	Year Ended 31 December 01
Income from International Aviation Terminals Inc.		
Interest on the Notes	$ 6,305,000	$ 5,187,500
Equity in (loss) earnings of IAT [(1)]	(1,330,000)	1,203,000
Amortization of purchase price discrepancy	(1,052,000)	1,929,000
	$ 3,923,000	$ 8,319,500
Expenses		
Administrative Costs	190,000	177,000
Net Earnings [(1)]	**$ 3,733,000**	**$8,142,500**
Item not affecting cash – equity loss (earnings) of IAT	2,382,000	(3,132,000)
Change in non-cash working capital items	10,000	15,000
Net cash effect of March 22, 2002 unit issue	(15,000)	
Dividends Received	**972,000**	**860,000**
	$ 7,082,000	**$5,885,500**
Distribution Declared	**$ 7,138,000**	**$5,884,000**
Distribution Declared Per Trust Unit [(2)]	$ 1.130	$ 1.113
Unitholders' Equity		
Unitholders' Equity – Opening	$ 46,777,500	$44,519,000
Net Earnings for the Year	3,733,000	8,142,500
Distribution Declared	(7,138,000)	(5,884,000)
Prior Year Dividend Declaration [(3)]	(215,000)	
Proceeds from Units Issued in the Year Net of Expenses	14,134,000	
Unitholders' Equity – Closing	$ 57,291,500	$46,777,500

(1) Net earnings for 2001 include a net recovery of $2,843,000 by the Fund as a result of a reduction in the provision for future income taxes, reflecting a reduction of income tax rates. This item does not affect cash. See Note 3 to the Financial Statements of the Fund.

(2) 2002 based on the weighted average number of units outstanding throughout the year of 6,316,790.

(3) Dividends are declared at the end of each quarter and payable to unitholders.

Message to Unitholders

We are pleased to provide you with the sixth Annual Report of the IAT Air Cargo Facilities Income Fund. Following an initial public offering of 5,285,168 Trust Units at $10.00 per unit, the Fund acquired the Shares and Notes on June 10, 1997.

On March 22, 2002, the Fund completed an offering of 1,321,200 additional Trust Units for gross proceeds of $14,599,260. The net proceeds of the offering after expenses of the Fund were used to acquire $11,500,000 of Notes, and $2,648,143 of Common Shares of IAT.

Distributions to Unitholders are entirely dependent upon interest and dividend payments received from IAT. These payments are dependent upon the earnings and cash flow from the operations of IAT which are affected by the occupancy of its facilities, the lease rates achieved from tenants, the recovery from tenants of its building operating costs and the amounts and timing of capital expenditures and the recoveries of such expenditures.

Annual distributions declared to Unitholders have increased from a level of $5,683,500 or $1.075 per Unit for 1998, the first full year of ownership of IAT by the Fund, to $7,138,000 or $1.13[(1)] per Trust Unit for 2002. In 2000, IAT commenced paying dividends at the rate of $0.041 per Unit per quarter or $0.163 per unit per year. Previously, IAT had paid quarterly dividends of $0.028 per Unit with an additional amount for distributable surplus from each year paid annually on April 15th of the following year. In the first quarter of 2003, with continued adverse business conditions affecting the airline and air cargo industries and in order to maintain adequate cash reserves, the Directors of IAT determined to reduce the level of quarterly dividend payable to the Fund by $0.014 per Unit.

The net proceeds from the private placement of additional units on March 22, 2002 have been applied to repay $13,362,850 of mortgage debt of IAT. We were pleased to be able to both increase the liquidity of our Trust Units and, by reducing mortgage debt, increase the flexibility of IAT for future financing and development.

We look forward to the sixth Annual General Meeting of Unitholders of the Fund to be held at 2:00 p.m. on June 2, 2003 at the Sutton Place Hotel in Vancouver, British Columbia and to reporting to you on the results of the Fund for the first quarter of 2003.

Respectfully submitted on behalf of the Trustees,

Robert J. Mair, Q.C.
Chairman
IAT Air Cargo Facilities Income Fund

April 10, 2003

(1) Calculated on a weighted average basis for 2002.

Fund Structure

IAT Air Cargo Facilities Income Fund is a limited purpose trust created under the laws of British Columbia on March 15, 1997 pursuant to a Declaration of Trust. The Fund was created to own all of the Shares and Notes of IAT. In its air cargo facilities business, IAT leases space in 19 buildings to businesses operating in the air cargo business and other aviation related businesses. In its Airside Facilities, IAT leases space to businesses involved in the maintenance of aircraft. The Fund's principal office is located at Suite 2000 - 5000 Miller Road, Richmond, British Columbia V7B IK6.

The Fund does not carry on any active business but rather is restricted to holding the Shares and Notes of IAT and, on a temporary basis, cash and short-term investments. The affairs of the Fund are supervised by three Fund Trustees who are appointed annually by the Unitholders. The affairs and operations of IAT are supervised by its Board of Directors and management is provided under certain management and governance agreements made with IAT Management Inc., controlled by T. Richard Turner, and LMT Management Ltd., which is controlled by all of the former shareholders of IAT.

Management of the Company

LMT Management Ltd. provides strategic advice under a ten-year Strategic Management Agreement with the Company. Pursuant to the provisions of a Corporate Governance Agreement, the Board of Directors of the Company is to be comprised of five members nominated as follows:

- two directors nominated by the Fund, one of whom is not a Fund Trustee and is also an "unrelated director" (within the meaning of the corporate governance policy of The Toronto Stock Exchange); and
- three directors nominated by LMT Management Ltd., one of whom is an "unrelated director".

Pursuant to the Strategic Management Agreement, the Board of Directors of the Company appoints the executive officers of the Company in accordance with the recommendations of LMT Management Ltd. At this time, the executive officers of the Company are: William H. Levine, T. Richard Turner, Wayne A. Duzita and Denise E. Turner, the last three of whom are full time employees of IAT Management Inc., which provides management and other services as described below in greater detail. LMT Management Ltd. has been granted the right to acquire up to 25% of the outstanding common shares of the Company. An initial option was granted on June 10, 1997 for 1,761,722 shares at $1.335 per share ($2,351,900 in aggregate) at any time up to June 10, 2007. An additional option was granted on March 22, 2002 to purchase up to 513,206 shares at $1.72 per share ($882,714 in aggregate) exercisable up to June 10, 2007 in connection with the Fund's issuance of additional Units and subscription of additional shares of the Company. These option rights become exercisable over a five-year period from January 1, 2003. LMT Management Ltd.'s director nomination rights are tied to retention of common shares, or these options to acquire such shares, comprising at least 10% of the common shares of IAT.

In addition, IAT contracts its day-to-day property management and leasing and marketing activities to IAT Management Inc. pursuant to a Property Management Agreement and a Leasing and Marketing Agreement, each of which had an initial ten-year term. IAT Management Inc. is controlled by T. Richard Turner, the President and Chief Executive Officer of IAT, and is responsible for the management of the business of IAT and for employing and remunerating executive officers. The fees payable for the services under the Property Management Agreement and the Leasing and Marketing Agreement are 5.75% and 2.1%, respectively, of gross receipts of IAT. The Property Management fees are recoverable from tenants; the Leasing and Marketing fees are not. IAT Management Inc. is also entitled, when applicable, to a fee of 6% of the cost of construction of certain improvements to leased premises.

During 2002, the Directors of IAT determined to extend the term of the Property Management Agreement and the Leasing and Marketing Agreement in order to ensure continuity in the existing management arrangements. In addition, to facilitate consideration of various strategic alternatives and, at the same time, better align the interests of the Unitholders and those of IAT Management, the Directors decided to provide for the ability to terminate these agreements at any time on 90

days' notice, subject to payment of a termination fee based on a 2.25 multiple of the basic management fees payable. This arrangement is intended to provide some sharing of the potential benefit of any sale of the business, while recognizing that IAT Management has ongoing commitments and will incur substantial costs in the event of a termination of its management as it employs all of the management personnel.

Accordingly, these agreements have been amended to provide for an "evergreen" ten year term, automatically extending annually by a further year unless otherwise terminated in accordance with its provisions. IAT may terminate these agreements at any time on 90 days' notice and payment of a termination fee equal to 2.25 times the annual amount of the fees payable for property management and leasing and marketing services (other than construction management). IAT Management may terminate on one year's notice.

IAT may also terminate the property management and leasing and marketing arrangements on individual properties that may be sold. If the remaining total area of properties under management is less than a minimum area (916,000 square feet prior to any change of control of the Fund or IAT), a termination fee may also become payable in respect of the property disposed of, based on a multiple of 2.25 times the management fees paid for that property. No other amount is payable by IAT in respect of any such termination for the costs and expenses that may be incurred by IAT Management or its obligations to its employees as a result of any such termination.

Dividend Policy and Distributions

The Board of Directors of the Company has adopted a policy of distributing by way of dividends or a return of capital on the Shares substantially all of the Company's available cash after payment of all interest obligations on the Notes and other obligations, subject to IAT retaining such reserves as may be considered appropriate by the Board of Directors of the Company for capital expenditures and working capital.

The amount of cash to be distributed annually by the Fund per Trust Unit will, generally, be equal to the pro rata share of interest and dividends received by the Fund in the year, less expenditures incurred by the Fund. Quarterly distributions are payable to Unitholders of record on the last day of each calendar quarter and are expected to be paid on or about the 15th day of January, April, July and October of each year.

Dividends have been paid quarterly by the Company, initially at the quarterly rate of $0.0284 per unit, with an additional amount being paid on April 15th in 1998, 1999 and 2000, representing surplus cash available for distribution in respect of the prior year. On this basis, $0.0176 per unit was paid on April 15, 1998 (in respect of 1997), $0.0335 per unit was paid on April 15, 1999 (in respect of 1998) and $0.0246 per unit was paid on April 14, 2000 (in respect of 1999). In December 1999, the Company determined that the increased cash flow of the Company was sufficient to permit regular quarterly dividends to be increased to $0.0407 per unit, and payments at this level commenced in January 2000 and continued through 2002. This increase has eliminated the requirement to make an annual surplus payment in April and has made distributions more even through the year.

The Fund is a taxable trust under the Income Tax Act (Canada) and is subject to taxation on its income for the year less the portion paid or payable to the Unitholders. Since all income is paid to the Unitholders in the year, the Fund has no taxable income.

Distributions paid by the Fund are generally taxable in the hands of the Unitholders. They are comprised of the interest (reported as "other income") and dividend income received by the Fund and, for the years 1997 through 2006, will also include an amount equivalent to the amortized portion of costs of issuance of the Trust Units which will be treated as a reduction of the adjusted cost base of the Unitholders' Trust Units and will be non-taxable.

Upon the disposition or deemed disposition of a Trust Unit, the Unitholder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition are greater (or less) than the adjusted cost base of the Trust Unit and any reasonable costs of disposition.

Operations of IAT

The information contained in this Annual Report concerning the operations and financial condition and results of IAT is provided by IAT Management Inc.

IAT is in the business of developing and leasing buildings and related space at airports, which are designed for use by businesses involved in air transport services including air cargo, aircraft maintenance and ground handling. IAT leases land at airports in Vancouver, Calgary, Edmonton, Saskatoon and Winnipeg under long-term ground leases from airport authorities or the Government of Canada in these cities. It leases the facilities developed on these lands, which comprise a total of approximately 1,246,000 square feet, to approximately 140 tenants.

Facilities

IAT has 1,246,000 square feet of available space for lease in 19 buildings either developed or acquired by IAT on land leased by IAT. At December 31, 2002, 1,112,665 square feet (89.3%) of available space was leased by IAT to approximately 140 tenants (27 of whom occupy space in IAT's buildings at more than one airport). Eleven of these facilities, comprising approximately 850,000 square feet of space, are on approximately 61 acres of land at the Vancouver International Airport. Effective December 31, 2000, a 52,000 square foot building at Vancouver primarily leased by one tenant was transferred into a joint venture in which IAT has a 50% interest.

IAT has operated commercial airport facilities since 1966 and in those many years has developed relationships with its tenants that provide a thorough knowledge of tenant needs. This knowledge has allowed IAT to maintain overall occupancy rates that have exceeded 89% since 1993.

Tenants of IAT's facilities operate businesses within the air cargo industry as well as within the aircraft maintenance and ground handling industry. These tenants include passenger airlines such as Air Canada, (which at year end leased approximately 23.2% of IAT's space and contributed approximately 19.1% of its revenue), integrated freight carriers such as Federal Express, UPS, DHL International, Emery Worldwide and BAX Global, air cargo handlers, freight forwarders, customs brokers, government agencies and others.

These businesses generally require direct access to airport infrastructure such as runways, passenger terminals, taxiways and secure service roads. Most of IAT's buildings are "airside" (buildings that are contiguous to or have direct access to airport infrastructure). Generally, "airside" buildings do not compete directly for tenants with "non-airside" buildings (buildings lacking such access). Consequently, IAT's results are more sensitive to the level of activity in the aviation industry rather than to the overall real estate cycle.

IAT's air cargo buildings are specifically designed for the needs of the air cargo industry with a flexible, modular design which permits a variety of configurations and expansion or contraction depending upon the needs of current and potential tenants. A combination of specialized facilities and limited availability of suitable land means that "airside" buildings generally achieve rents above those paid for industrial or warehouse buildings in non-airport locations.

Typically, IAT enters into leases with tenants for terms of five to ten years. Depending on the needs of the tenant, some leases are of shorter duration. Leases of approximately 15% to 20% of IAT's rentable space expire each year.

Discussion and Analysis of Financial Condition and Results of Operations

QUARTERLY FINANCIAL INFORMATION OF THE FUND

Earnings from Investment in IAT (unaudited) ($000's except per unit)	Quarter Ending 31 Dec 02	Quarter Ending 30 Sept 02	Quarter Ending 30 Jun 02	Quarter Ending 31 Mar 02	Quarter Ending 31 Dec 01	Quarter Ending 30 Sept 01	Quarter Ending 30 Jun 01	Quarter Ending 31 Mar 01
Interest Income from IAT	$1,657	$1,656	$1,656	$1,336	$1,297	$1,297	$1,297	$1,297
Net Earnings(1)	(735)	3,099	549	820	3,942	2,147	1,049	1,005
Net Earnings per Trust Unit(1)	(0.111)	0.469	0.083	0.151(2)	0.746	0.406	0.198	0.190
Dividends Received	269	269	269	220(3)	215	215	215	215
Total Distributions	1,899	1,862	1,867	1,510(3)	1,478	1,475	1,448	1,483
Distributions per Trust Unit	0.287	0.282	0.283	0.278	0.280	0.279	0.274	0.281

QUARTERLY FINANCIAL INFORMATION OF IAT INC.

	Quarter Ending 31 Dec 02	Quarter Ending 30 Sept 02	Quarter Ending 30 Jun 02	Quarter Ending 31 Mar 02	Quarter Ending 31 Dec 01	Quarter Ending 30 Sept 01	Quarter Ending 30 Jun 01	Quarter Ending 31 Mar 01
Lease Revenue	2,634	2,611	2,618	2,640	2,657	2,661	2,652	2,652
EBITDA	2,208	1,887	2,044	1,741	1,880	1,930	1,925	1,811
Interest on Notes and Amortization (4)	(2,922)	(2,383)	(2,472)	(2,104)	(2,042)	(2,375)	(1,851)	(1,851)
Earnings Before Tax	(714)	(496)	(428)	(363)	(162)	(445)	74	(40)
Provision for Taxes	(1,376)	2,238	(356)	166	213	1,567	(13)	9
Fund Equity in Earnings (Loss) of IAT	(2,091)	1,742	(784)	(197)	51	1,122	61	(31)

(1) Quarterly earnings vary as a result of the provision for equity in earnings or loss of IAT which are affected by various factors described below including the provisions for future income taxes (and adjustments in quarterly estimates) referred to under "Comparability of Results".

(2) Based on weighted average number of units for the quarter, due to the issue of additional 1,321,200 units on March 22, 2002.

(3) An additional distribution equal to $0.0326 per unit was made on the 1,321,200 Trust Units issued on March 22, 2002 for the period ending on March 31, 2002.

(4) In the quarter ending December 31, 2002, includes $351,000 write down of property.

General

The Fund does not carry on any active business and is restricted to holding, and derives all its income from, the Shares and Notes of IAT. Accordingly, the Fund is entirely dependent on the results of operations of IAT which are summarized and included in the following discussion.

IAT's revenues and earnings and its level of distributable cash are affected by vacancy and lease rates, operating cost recoveries and maintenance and other capital cost requirements. These in turn are dependent on demand for the movement of air freight. The aviation industry in which IAT operates is cyclical, and the demand for the movement of air freight is dependent upon the overall economy and level of activity in the aviation industry.

Principally, because of the slowing of world economic growth, the volume of air freight worldwide has decreased compared to volumes in 2001. In Vancouver, from which IAT derives 74% of its revenues, air cargo volumes in 2002 were lower by approximately 12% compared to 2001. The level of air cargo volumes appeared to be stabilizing in 2002, prior to the effects on air travel in 2003 of war in the Middle East and health issues.

Comparability of Results

In June 2000, IAT acquired approximately 210,000 square feet of hangar, office, shops and ramp space (the "Airside Facilities") at Vancouver International Airport. Approximately 111,000 square feet consists of ramp space. Because of the mixed nature of the Airside Facilities, lease rates and occupancy rates are lower on average than the typical air cargo facilities owned by IAT. Also, results for 2000 include results of operation of the Airside Facilities for 195 days, compared to the full year in 2001.

Effective December 31, 2000, a building developed by IAT at the Vancouver International Airport was transferred into a joint venture arrangement with the tenants of the building. Financial information as at December 31, 2001 reflects IAT's 50% interest in the joint venture assets and liabilities and the results of operations for 2002 reflect IAT's 50% interest in joint venture operations.

Effective January 1, 2000, IAT and the Fund adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to income taxes. As a result of the adoption of these recommendations, IAT recorded a $12.7 million future income tax liability, with a corresponding increase in property, plant and equipment. The Fund similarly recorded a $16.5 million future income tax liability on January 1, 2000 offset by an equal amount added to the Fund's purchase price discrepancy. Increases or decreases in income tax rates can have a significant effect on the provision for future income taxes in IAT and, at the Fund level, on the net amortization of the Fund's purchase price discrepancy on its acquisition of IAT in 1997. In 2001, this resulted in an increase in the Fund's equity in earnings of IAT of $1.6 million (See Note 10 to the financial statements of IAT) and decreased amortization of the Fund's purchase price discrepancy by $2.8 million. (Note 3 to the financial statements of the Fund.) These adjustments have no effect on IAT's distributable cash or earnings before interest on Notes, depreciation, amortization and income taxes ("EBITDA"). (EBITDA is not a recognized measure under Canadian generally accepted accounting principles ("GAAP") but is a useful supplemental indicator of cash available for distribution prior to interest requirements on Notes, amortization and income taxes. The Fund's method of calculating EBITDA may differ from other issuers and is not to be construed as an alternative to net earnings determined in accordance with GAAP.)

Results of Operations

The financial condition and results of operations of IAT are primarily affected by its operations at the Vancouver International Airport which account for approximately 63.4% of the space leased by IAT and 74.5% of its revenues for the year ended December 31, 2002.

The strategy of IAT's management is to maintain or increase occupancy and cost recoveries so as to maximize cash flow. The occupancy rate at the end of 2002 was 89.3% compared to 92.7% at the end of 2001, reflecting the effects on IAT's tenants of the problems and uncertainty currently affecting the airline and air cargo industries. It is expected that IAT's future occupancy rates and recoveries will continue to mirror

economic developments in the aviation industry. Lease rates in 2002 averaged $9.28 per square foot, $0.30 per square foot (or 3.3%) higher than the average rates for 2001. This increase reflects increased operating costs and current market conditions. Building operating cost recoveries were approximately 92.8% in 2002 (versus 95.0% in 2001). Recovery of operating costs for these buildings has historically closely tracked the occupancy rate.

IAT's EBITDA were $7,879,572 in 2002 compared with $7,546,311 in 2001. The improvement in EBITDA is the result of reduced mortgage interest (net of prepayment costs), offset by the reduced revenues and recoveries caused by current occupancy levels. (1)

The acquisition agreement for the Airside Facilities included an arrangement for potential "top up" of actual cash flow from a contingent reserve from the purchase price of $541,732. This amount was set aside as "restricted cash", available to supplement lease revenues over a three-year period and, if not so required, to be paid to the vendor. If cash flow from this property does not meet the annual projections for a year, the deficiency may be drawn from the amount reserved. The amounts to be retained by IAT or paid to the vendor will be adjusted on the basis of cumulative cash flow at the end of the three year period. In 2001, $222,887 was drawn by IAT to supplement cash flows from the first year of ownership. An additional $122,248 was drawn in 2002 to supplement cash flows from this property for the second year. This arrangement expires in June 2003..

(1) EBITDA is calculated before interest payable by IAT on Notes. The investment on March 22, 2002 in $11,500,000 of 12.5% subordinated notes payable to the Fund and maturing June 10, 2027 resulted in increased interest payments to the Fund. The cash raised through the issuance of these notes and the issue of further shares in IAT to the Fund facilitated the early repayment of mortgage debt in the current year of $13,240,000.

Selected Financial Information of IAT

	Year Ended December 31			
	2002	2001	2000 (1)	1999
	Thousands of dollars			
Lease Revenue	$10,503	$10,622	$10,147	$9,402
Operating Costs	7,914	8,048	7,476	6,545
Cost Recoveries	7,344	7,649	7,096	6,232
Earnings Before Interest on Notes, Depreciation, Amortization and Income Taxes	7,880	7,546	7,086	7,111
Capital Expenditures: (2)				
Maintenance (3)	71	33	437	125
Refurbishment (4)	475	348	234	122
Principal on Mortgages (5)	13,743	779	614	397

Notes:

(1) Includes 195 days of results from the Airside Facilities.

(2) Does not include financing costs of new facilities.

(3) Recoverable from tenants under the terms of the various tenant leases.

(4) Not recoverable from tenants. In 2001, this amount includes approximately $235,000 of funds spent to develop tenant improvements for a tenant in Vancouver, and in 2002 includes $445,000 for improvements in Edmonton.

(5) In 2002, includes $13,240,000 of retired mortgage debt.

SELECTED RATIOS OF IAT

	Year Ended December 31			
	2002	2001	2000 (1)	1999
	Thousands of dollars			
Total Square Feet Owned at Year End	1,220,070 (2)	1,220,070 (2)	1,220,070 (2)	992,000
Occupancy Rate at Year End (3)	89.3%	92.7%	93.3%	96.4%
Average Square Feet Owned During Year	1,220,070 (2)	1,220,070 (2)	1,140,000 (2)	992,000
Average Occupancy Rate During the Year (3)	89.4%	93.2%	93.9%	95.8%
Average Lease Rate During the Year (3)	$9.28	$8.98	$9.06	$9.41
EBITDA Per Average Square Foot Owned (3)	$6.46	$6.18	$6.22	$7.17
EBITDA/Revenue (3)	75.0%	71.0%	69.8%	75.6%
Building Operating Cost Recovery	92.8%	95.0%	94.9%	95.2%
EBITDA Per Trust Unit (3)(4)	$1.25	$1.43	$1.34	$1.35

Notes:

(1) Includes 195 days of results from the Airside Facilities.

(2) Effective December 31, 2000, a 52,000 square foot building at Vancouver primarily leased by one tenant was transferred into a joint venture in which IAT has a 50% interest.

(3) In 2001, includes full year of operations from the Airside Facilities, which have lower average lease rates and lower occupancy levels than the air cargo facilities.

(4) In 2002, based on the weighted average of units outstanding through the year of 6,316,790.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

On March 22, 2002, and subsequent to the Fund's issuance of 1,321,200 additional units, the Fund invested $11,500,000 in Notes of IAT and $2,181,369 in additional common shares of IAT, net of issue costs. These proceeds were used to retire $13,362,850 in mortgage debt, net of early payment fees. The retirement of this debt reduced mortgage interest costs in 2002, improved EBITDA and increased interest payments on the Notes.

Lease revenues in 2002 declined by approximately $120,000 from 2001, while operating costs not recovered from tenants increased to $570,000 for 2002 compared to $400,000 in 2001, in each case as a result of lower average occupancy levels (89.4% for 2002 versus 93.2% for 2001). These factors were partially offset by higher average lease rates. Year end occupancy levels at the Airside Facilities acquired in June 2000 remain lower (82.3%) than at IAT's air cargo facilities, but cash flow was supplemented by drawing an additional $122,000 from the restricted cash reserve set up on acquisition to supplement lease revenues.

Amortization expense incurred in 2002 increased to $3,225,000, compared to $2,932,000 in 2001. In addition, the Company's remaining investment ($350,973) in an access tunnel at Vancouver International Airport was written off. No income is derived from this tunnel.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Revenues increased to $10,622,000 from $10,147,000 which is an increase of $475,000 or 4.7%. EBITDA increased by $460,000 or 6.5% during the year. This increase in EBITDA is mainly due to higher revenues and lower administrative costs. Mortgage interest also increased marginally during the year.

Consistent with the expectations of management, the occupancy level during the year of IAT's facilities decreased (93.2% versus 93.9% last year) due to a slowing economy and because of the inclusion of the Airside Facilities for the entire year. The Airside Facilities, which include hangar and ramp space, have a lower occupancy rate than the balance of IAT's air cargo

facilities. The average lease rate per square foot during the year also decreased ($8.98 versus $9.06) largely because of the impact of the Airside Facilities. Recovery of operating costs was 95.0% compared with 94.9% last year. This recovery ratio will closely follow the level of occupancy. Costs not recovered from tenants rose slightly from $379,000 to $399,000.

Refurbishment capital expenditures (not recoverable from tenants) increased from $234,000 in 2000 to $348,000 in 2001 due to IAT undertaking a large ($235,000) investment in new offices to accommodate a tenant in Vancouver entering into a 5-year lease commitment. The balance of the refurbishment capital expenditures were in the normal course of business.

See the "Selected Ratios of IAT" for further analysis of results from 2001 compared to past years.

Liquidity and Capital Resources

The Fund is totally dependent upon IAT for the cash to pay its administrative expenses and the amounts ultimately distributed to the Unitholders. The distributions of the Fund are based upon amounts of interest and dividends paid by IAT. The annual interest payment on the Notes is a continuing obligation of IAT to the Fund. The Company has adopted a policy of distributing to the Fund by way of dividends or a return of capital on the Shares substantially all of the Company's available cash after reserves and payment of all interest obligations on the Notes. The amount available will fluctuate based upon IAT's earnings and its requirements for refurbishment capital, financing costs and working capital.

IAT's cash from operations is not seasonal but is cyclical as it pertains to the aviation industry. Operating expenses (including property taxes and insurance) are recovered from tenants as the cost is incurred throughout the year. IAT maintains an operating credit facility of $750,000 both to meet its working capital requirements and to permit relatively even distributions to the Fund. To date, the Company has always been able to meet all its working capital and other cash requirements from its own sources of cash and, accordingly, there have been no drawing on this facility.

The level of refurbishment capital expenditures necessary to keep the business operating at current levels of profitability is anticipated to be approximately $150,000 per year and relates primarily to the refurbishing of tenant areas upon lease expiry or to accommodate new tenants in vacant space. In 2002, the Company incurred $475,000 of such costs ($445,000 in expenditures were incurred to develop a Customs facility in Edmonton) and these were paid from the Company's cash flow from operations. In addition, operating expenditures of approximately $60,000 per year are required to paint, repair and otherwise clean tenant areas from time to time. These costs are not recoverable from tenants.

IAT may on occasion require additional capital to fund acquisitions and developments. These include the Phase X development at the Vancouver International Airport, which opened in March 2000 and cost $3.7 million. Such acquisitions and developments are primarily funded by mortgage financing. In addition, IAT may incur costs from time to time in connection with potential acquisitions or expansions and related financing proposals. Pending the completion or other termination of these proposed transactions, such costs may be deferred and subsequently may be capitalized as part of the acquisition costs, applied against financing proceeds or expensed, depending on the nature and outcome of the proposed transaction.

Outlook

After a period of strong and sustained expansion of world trade and growth in air cargo volumes, volumes have declined in 2001 and 2002 with the adverse effects of a combination of worldwide economic slowdown and the events and aftermath of September 11, 2001. The continuing problems afflicting the airline and air cargo industries have reduced activity and cashflow for IAT's tenants, which has resulted in lower occupancy rates for IAT's facilities and deferral of renewal and demand for leased space.

IAT has been somewhat insulated from the immediate effects of these problems because of its tenants' lease commitments. However, in early 2003, with further conflict in the Middle East and continued uncertainty

affecting markets throughout the world, no significant improvement in occupancy levels or recoveries is expected this year.

On April 1, 2003, Air Canada, IAT's largest tenant, obtained a stay of proceedings order under the Companies' Creditors Arrangement Act granting it protection from creditors' rights, including the enforcement of landlords' remedies. This order permits Air Canada to continue its operations and, subject to approvals, to determine which of its obligations, including leases, that it will continue to meet.

IAT has not been notified by Air Canada of any intention to terminate any of its lease obligations at any of the three airports at which it leases facilities from IAT. Management of IAT presently anticipates that Air Canada will continue to require leased facilities at major airports and therefore expects it will be obligated to make lease payments for at least some portion of those facilities.

Currently, Air Canada leases a total of approximately 290,000 square feet of space from IAT. The lease of 121,000 square feet of this space in the Airside Facilities at Vancouver expires in May 2003 and was not anticipated by management of IAT to be renewed in its annual plan. Of the remaining 169,000 square feet, approximately 25,000 is sublet to other tenants, 84,000 is occupied by Air Canada and another 60,000 is not currently being used and may not be required by Air Canada. If Air Canada determines not to meet its lease obligations on this 60,000 square feet, the lease revenues and cost recoveries would represent approximately 5% of IAT's current monthly revenues and cost recoveries until the space could be released.

IAT has been able to maintain its distribution level, including dividend payments at the rate of $0.041 per Unit per quarter, through 2002, despite the problems affecting the airline and air cargo industries. In the first quarter of 2003, the directors of IAT determined that it would be prudent to conserve cash and therefore reduced the dividend payment to $0.027 per Unit per quarter (reducing distributions by approximately $370,000 per year). The directors of IAT will continue to review distributions and the level of dividend in light of developments concerning Air Canada and occupancy levels as 2003 progresses.

It is possible that one or more of the authorities at airports where IAT sublets air cargo facilities may develop and lease air cargo facilities in direct competition to IAT. To date, no authority has done so. Other developers of such space may also compete with IAT either at or near such airports.

The Vancouver International Airport Authority (VIAA) has adopted land management guidelines for airside lands which include provisions regarding future development of airside lands and facilities. These indicate that the VIAA is seeking higher development densities and cargo processing rates and to encourage competition in supply of airside facilities. Further facilities are to be developed primarily under a direct lease from the VIAA to an end-user, by an end-user who elects to use a third-party developer, or by a third-party developer selected through a public or competitive process for specific projects. Airside lands to be developed for multi-tenant use are to be offered in a public or competitive process. The VIAA guidelines also indicate that it may build airside facilities itself or in conjunction with others. IAT believes it can compete effectively in a fair and open process for opportunities to develop new facilities.

The issuance of additional trust units in March 2002, and the reduction of IAT's mortgage debt, was timely and has improved IAT's financial position so as to provide it with both the ability to deal with the current adverse business conditions and the flexibility to finance future expansion as appropriate opportunities arise.

April 10, 2003

IAT Management Inc.
per:

T. Richard Turner
President and Chief Executive Officer

Responsibility for Financial Reporting

The financial statements and other information pertaining to the Fund in this annual report are the responsibility of the Trustees of the Fund. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect estimates and judgements of the executive management of the Company.

The Company's executive management is also responsible for maintaining systems of internal and administrative controls to provide reasonable assurance that the Fund's assets are safeguarded, that transactions are properly executed in accordance with appropriate authorization and that the accounting systems provide timely, accurate and reliable financial information.

The Board of Directors is responsible for assuring that the Company's executive management fulfills its responsibility for financial reporting and internal control.

The financial statements have been audited on behalf of the Unitholders by PricewaterhouseCoopers LLP, Chartered Accountants, in accordance with generally accepted accounting standards. The Auditors' Report outlines the scope of their examination and their independent professional opinion on the fairness of these financial statements.

April 10, 2003

Robert J. Mair, Q.C.
Chairman
IAT Air Cargo Facilities Income Fund

AUDITORS' REPORT TO THE UNITHOLDERS OF IAT AIR CARGO FACILITIES INCOME FUND

We have audited the balance sheets of **IAT Air Cargo Facilities Income Fund** as at December 31, 2002 and 2001 and the statements of earnings and unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia

March 10, 2003
(except for note 10, which is as of April 1, 2003)

BALANCE SHEETS AS AT DECEMBER 31, 2002 AND 2001

(in thousands of dollars)

	2002 $	2001 $
ASSETS		
Current assets		
Cash	1,631	1,266
Investment in IAT (note 3(a))		
Subordinated notes - at cost	53,000	41,500
Common shares - at equity	4,338	5,098
Dividend receivable	269	215
	57,607	46,813
	59,238	48,079
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable	2	4
Distribution payable to unitholders	1,899	1,263
Due to IAT (note 3(b))	46	34
	1,947	1,301
Unitholders' equity	57,291	46,778
	59,238	48,079

Approved by the Fund Trustees

Trustee
Robert J. Mair

Trustee
H. Bud Boyer

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF EARNINGS AND UNITHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(in thousands of dollars except per trust unit amounts)

	2002 $	2001 $
Income		
Interest income on IAT subordinated notes (note 3(a))	6,305	5,188
Equity (loss) earnings of IAT	(1,330)	1,203
Amortization of purchase price discrepancy (note 3(a))	(1,052)	1,929
	3,923	8,320
Expenses		
Administration	190	177
Net earnings for the year	3,733	8,143
Unitholders' equity - Beginning of year	46,778	44,519
Units issued in the year - net of expenses (note 4)	14,132	-
Distributions to unitholders (note 5)	(7,352)	(5,884)
Unitholders' equity - End of year	57,291	46,778
Basic and diluted earnings per trust unit	0.591	1.541
Weighted average number of trust units outstanding	6,316,790	5,285,168

The accompanying notes are an integral part of these financial statements.

IAT Air Cargo Facilities Income Fund

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(in thousands of dollars)

	2002 $	2001 $
Cash flows from operating activities		
Net earnings for the year	3,733	8,143
Item not affecting cash - equity loss (earnings) of IAT	2,382	(3,132)
	6,115	5,011
Change in non-cash working capital items	10	15
	6,125	5,026
Cash flows from investing activities		
Dividends received from IAT	972	860
Note receivable from IAT	(11,500)	-
Purchase of IAT shares	(2,648)	-
	(13,176)	860
Cash flows from financing activities		
Distributions paid to unitholders	(6,716)	(5,914)
Units issued for cash	14,599	-
Issue costs	(467)	-
	7,416	(5,914)
Increase (decrease) in cash	365	(28)
Cash - Beginning of year	1,266	1,294
Cash - End of year	1,631	1,266

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(amounts in tables in thousands of dollars)

1. Organization and basis of presentation

IAT Air Cargo Facilities Income Fund (the Fund) is an unincorporated limited purpose trust created pursuant to a declaration of trust made as of March 15, 1997 (the Declaration of Trust) and governed by the laws of the Province of British Columbia. The Fund was created to acquire the common shares and subordinated notes of International Aviation Terminals Inc. (IAT) (note 3). The Fund's acquisition of the common shares and subordinated notes is financed by the public issue of units of the Fund (note 4).

While the Fund owns all of IAT's issued common shares, a corporate governance agreement provides that LMT Management Ltd. (LMT), a company beneficially owned by the previous shareholders of IAT, is entitled to designate three of IAT's five directors. Accordingly, IAT does not meet the definition of a subsidiary for accounting purposes and the Fund accounts for its investment from the effective date of the acquisition using the equity method. Under this method, the cost of the investment is increased (decreased) by IAT's earnings (loss) and reduced by any dividends paid to the Fund by IAT.

2. Significant accounting policies

Income taxes
The Fund is a unit trust for income tax purposes. As such, the Fund is only taxable on any taxable income not allocated to the unitholders. During 2002 and 2001, the Fund allocated all of its taxable income to the unitholders (note 5) and, accordingly, no current provision for income taxes has been made in these financial statements.

The Fund and IAT account for income taxes using the liability method. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change occurs.

Notes to Financial Statements
for the Years Ended December 31, 2002 and 2001

(amounts in tables in thousands of dollars)

3. Investment in subordinated notes and common shares of IAT

a) Under purchase agreements with an effective date of June 10, 1997, the Fund purchased a 100% interest in IAT. The investment in IAT is made up as follows:

	2002 $	2001 $
12.5% subordinated notes	53,000	41,500
Common shares - at equity		
Balance - Beginning of year	5,098	3,041
Less:		
Amount of purchase price discrepancy	(1,052)	1,929
Equity (loss) earnings of IAT	(1,330)	1,203
Dividends received	(757)	(860)
Dividends receivable	(269)	(215)
IAT share purchase in 2002	2,648	-
Balance - End of year	4,338	5,098
Dividend receivable	269	215
Investment in IAT - End of year	57,607	46,813

The subordinated notes mature June 10, 2027 with interest paid quarterly. The notes are not redeemable or retractable before that date and are unsecured and subordinated to all other senior indebtedness, as defined.

During 2002, the Fund subscribed for an additional $11,500,000 12.5% subordinated notes and $2,648,143 of common shares.

The excess of the Fund's cost of its investment in IAT's common shares and subordinated notes over the net book value at the initial date of acquisition has been allocated to land leases, building, and future income taxes. Land leases and buildings are amortized over the term of the land leases.

Notes to Financial Statements for the Years Ended December 31, 2002 and 2001

(amounts in tables in thousands of dollars)

The Fund has determined its purchase price discrepancy, representing the excess of the purchase price paid over the related net book value of the IAT assets acquired in 1997, to be $22,983,000. The purchase price discrepancy has been ascribed and amortized as follows:

			2002	2001
	Purchase price discrepancy $	Accumulated amortization $	Net $	Net $
Land leases and buildings	41,336	(9,137)	32,199	33,843
Future income taxes	(18,353)	6,762	(11,591)	(12,183)
	22,983	(2,375)	20,608	21,660

The amortization of the Fund's purchase price discrepancy net of future income tax recovery for the year ended December 31, 2001 of $1,929,000 includes a non-cash future income tax recovery of $2,843,000 due to the reduction in substantively enacted income tax rates.

b) The advances from IAT are due on demand and do not bear interest.

4. Unitholders' capital

The Declaration of Trust provides that an unlimited number of trust units may be created and issued. Each unit represents an equal undivided beneficial interest in any distributions from the Fund and in the net assets in the event of termination or wind-up of the Fund. All units are of the same class with equal rights and privilege.

Under a prospectus dated May 30, 1997, the Fund qualified the distribution and sale of 5,285,168 units for cash consideration of $10 per unit, which, after deducting the costs of the issue, resulted in net unitholders' capital of $50,876,172. A further private placement of 1,321,200 trust units in March 2002, for cash consideration of $11.05 per unit, increased unitholders' capital, after issue costs of $466,774, by $14,132,486.

Options

LMT has been granted options to purchase from IAT up to 2,274,929 authorized but unissued common shares as follows:

	Outstanding	Exercisable	Weighted average option price $
Balance - December 31, 2001	1,761,723	1,409,376	1.34
Granted March 22, 2002	513,206		1.72
Balance - December 31, 2002	2,274,929	1,761,723	1.42

Notes to Financial Statements for the Years Ended December 31, 2002 and 2001

(amounts in tables in thousands of dollars)

The options issued during 2002 become exercisable, on a cumulative basis, over a five-year period commencing January 1, 2003. All of the options expire on June 10, 2007. Additional options may be granted if IAT issues additional shares. To date, no common shares have been purchased under the options.

Under certain conditions, the Fund has a call right to acquire from LMT, and LMT has a put right to sell to the Fund, the common shares acquired by LMT upon exercise of the options. The number of trust units to be exchanged for each common share is to be determined based upon the ratio of distributions paid per IAT share to distributions paid per Fund unit over the previous 12 months.

5. Distributions to unitholders

Distributions to unitholders are made on a quarterly basis. The amount of cash to be distributed annually to unitholders is equal to the total interest income earned on the subordinated notes and dividends or returns of capital received on the common shares of IAT, less any expenses incurred by the Fund or amounts that may be paid in connection with any cash redemption of units.

During the year ended December 31, 2002, distributions to unitholders were $7,352,000 (2001 - $5,883,946).

The financing costs incurred by the Fund on the issue of the units are deductible by the Fund on a straight-line basis over five years. Issue costs deducted by the Fund allow the Fund to designate an equivalent amount as a return of capital for income tax purposes to the unitholders. Of the initial financing costs of $1,975,508, $78,974 was available and fully amortized in 2002. An additional $466,774 of financing costs were incurred for the March 2002 unit issue, and will be amortized on a straight-line basis over five years. As at December 31, 2002, $373,607 of these issue costs are available for future designation as a return of capital.

6. Fund administration

The Fund has engaged IAT Management Inc. (IAT Management), a company controlled by IAT's president and chief executive officer, to provide administrative services to the Fund. The Fund will reimburse IAT Management for any incidental expenses incurred on its behalf. During the years ended December 31, 2002 and 2001, no expenses were reimbursed by the Fund.

7. IAT's management agreements

Pursuant to management, leasing, and marketing agreements between IAT and IAT Management, IAT Management has agreed to provide IAT with property management, development, leasing, and marketing services for the properties owned and leased by IAT. The terms of these agreements are for 10 years ending in 2007 subject to certain early termination rights and obligations. IAT was charged $1,314,903 for the year ended December 31, 2002 (2001 - $1,360,692) under the agreements.

Pursuant to a strategic management agreement between IAT and LMT, LMT has agreed to provide strategic management and advice to IAT for a period

Notes to Financial Statements for the Years Ended December 31, 2002 and 2001

(amounts in tables in thousands of dollars)

of 10 years ending in 2007 subject to certain early termination rights and obligations. IAT will reimburse LMT for expenses incurred over the term of the agreement ($nil to date). LMT has been granted options to acquire authorized but unissued shares of IAT (note 4).

8. Financial instruments

The carrying values of the Fund's financial instruments approximate fair values in each case, except for the Fund's investment in subordinated notes and common shares of IAT. It is not practicable to determine the fair value of the investment given the terms and conditions that would influence such a determination.

9. Related party transactions

During the year ended December 31, 2002, the Fund paid an aggregate amount of $803,000 of underwriting fees to a company whose vice-chair is a Trustee of the Fund.

The Fund was reimbursed $466,774 by IAT in respect of the underwriting fees.

10. Subsequent event

On April 1, 2003, Air Canada, IAT's largest tenant, obtained a stay of proceedings order under the Companies' Creditors Arrangement Act granting it protection from creditors' rights, including the enforcement of landlords' remedies. This order permits Air Canada to continue its operations and, subject to approvals, to determine which of its obligations, including leases, that it will continue to meet. At this time, IAT is unable to determine the impact, if any, that this filing will have on IAT's future operations.

Auditors' Report to the Shareholders of International Aviation Terminals Inc.

We have audited the balance sheets of **International Aviation Terminals Inc.** as at December 31, 2002 and 2001 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia

March 10, 2003
(except for note 13, which is as of April 1, 2003)

International Aviation Terminals Inc.

BALANCE SHEETS AS AT DECEMBER 31, 2002 AND 2001

	2002 $	2001 $
ASSETS		
Current assets		
Cash	1,824,467	1,582,874
Accounts receivable	90,690	188,795
Recoverable costs	452,571	575,421
Prepaid expenses and deposits	219,134	180,034
Advances to IAT Air Cargo Facilities Income Fund (note 11(a))	45,836	34,498
Restricted cash (note 3)	196,597	–
	2,829,295	2,561,622
Restricted cash (note 3)	–	318,845
Intangible assets (note 4)	26,102,966	27,717,692
Property and equipment (note 5)	38,733,788	40,220,850
	67,666,049	70,819,009
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	750,842	662,888
Tenant deposits	1,437,247	1,326,078
Deferred revenue	504,549	709,136
Current portion of long-term debt (note 6)	422,052	811,863
Dividends payable (note 7)	268,747	215,000
	3,383,437	3,724,965
Long-term debt (note 6)	68,044,529	69,897,278
Future income taxes (note 10)	12,975,402	13,759,056
	84,403,368	87,381,299
SHAREHOLDER'S DEFICIENCY		
Capital stock (note 7)	13	10
Contributed surplus (note 7)	6,996,520	5,841,177
Deficit	(23,733,852)	(22,403,477)
	(16,737,319)	(16,562,290)
	67,666,049	70,819,009

Commitments (note 9)

Approved by the Board of Directors

Director
T. Richard Turner

Director
William H. Levine

The accompanying notes are an integral part of these financial statements.

International Aviation Terminals Inc.

Statements of Operations and Deficit for the Years Ended December 31, 2002 and 2001

	2002 $	2001 $
Lease revenue	10,502,824	10,622,000
Expenses		
Operating costs (note 11(a))	7,914,124	8,048,404
Cost recoveries	(7,344,117)	(7,648,854)
Leasing and marketing fees (note 11(a))	360,837	381,854
Selling, general and administrative	331,749	293,438
Interest on mortgages, less interest income (note 6)	1,360,659	2,000,847
	2,623,252	3,075,689
Earnings before the following	7,879,572	7,546,311
Interest on notes (note 6)	6,305,009	5,187,500
Amortization	3,225,382	2,931,714
Writedown of property and equipment (note 5)	350,973	-
	9,881,364	8,119,214
Loss before income taxes	(2,001,792)	(572,903)
Provision for (recovery of) income taxes (note 10)		
Current	112,237	157,860
Future	(783,654)	(1,934,082)
	(671,417)	(1,776,222)
(Loss) net earnings for the year	(1,330,375)	1,203,319
Deficit - Beginning of year	(22,403,477)	(23,606,796)
Deficit - End of year	(23,733,852)	(22,403,477)

The accompanying notes are an integral part of these financial statements.

International Aviation Terminals Inc.

Statements of Cash Flows
for the Years Ended December 31, 2002 and 2001

	2002 $	2001 $
Cash flows from operating activities		
(Loss) net earnings for the year	(1,330,375)	1,203,319
Items not affecting cash		
Amortization	3,225,382	2,931,714
Writedown of property and equipment	350,973	–
Future income taxes	(783,654)	(1,934,082)
	1,462,326	2,200,951
Change in non-cash working capital items	176,391	75,019
	1,638,717	2,275,970
Cash flows from investing activities		
Purchase and construction of property and equipment	(474,567)	(311,704)
Restricted cash	122,248	222,887
Advances to IAT Air Cargo Facilities Income Fund	(11,338)	(18,822)
	(363,657)	(107,639)
Cash flows from financing activities		
Issue of share capital - net of expenses	2,181,369	–
Long-term debt borrowing	11,500,000	1,925,000
Repayment of long-term debt	(13,742,560)	(2,404,773)
Dividends on common shares	(972,276)	(860,000)
Repayment of advances from affiliated company	–	(48,019)
	(1,033,467)	(1,387,792)
Increase in cash	241,593	780,539
Cash - Beginning of year	1,582,874	802,335
Cash - End of year	1,824,467	1,582,874
Supplemental information		
Interest paid	7,731,055	7,333,202
Income taxes paid	133,874	138,162

The accompanying notes are an integral part of these financial statements.

International Aviation Terminals Inc.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

1. Business of the company

International Aviation Terminals Inc. (the company or IAT) is in the business of developing and leasing buildings and related space at airports, which are designed for use by businesses involved in air transport services including air cargo, aircraft maintenance and ground handling. IAT leases land at airports in Vancouver, Calgary, Edmonton, Saskatoon and Winnipeg under long-term ground leases from airport authorities or the Government of Canada in these cities.

2. Significant accounting policies

Revenue recognition
Lease revenue includes rents earned from tenants under lease agreements and parking revenue. Rent revenue is recognized as earned.

Recoverable costs
In its leases with tenants, the company makes provision to recover, in addition to the rent paid, a proportionate share of the company's operating and maintenance costs, including rent paid by the company on its ground leases. Such costs and their recovery are recorded as incurred. Certain maintenance costs are deferred and recovered over a period ranging from 3 to 10 years.

Use of estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and the reported amount of expenses during the period. Actual results could differ from these estimates.

Property and equipment
Property and equipment are recorded at cost, which includes capitalized interest during the construction period, less accumulated amortization.

Amortization of property and equipment is computed using the following methods and rates:

Buildings	sinking fund - lesser of term of land lease and 40 years at 5%
Office equipment	declining balance - 8% to 50%
Tenant improvements	straight-line over terms of tenant leases
Fencing, signs, paving and landscaping	declining balance - 8% to 20%

No amortization is recorded on construction-in-progress until the facility is available for use.

The company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, a writedown is recognized equal to the difference.

Notes to Financial Statements for the Years Ended December 31, 2002 and 2001

Intangible assets
Intangible assets are recorded at cost less accumulated amortization. Amortization of intangible assets is computed over the term of the contractual arrangement as follows:

Land leases	straight-line over terms of land leases
Non-compete agreement	straight-line - 10 years

Intangible assets are written down when the carrying value exceeds the net recoverable amount.

Deferred revenue
Tenant rentals are normally billed in advance. These amounts are deferred and recognized as revenue over the billing period.

Joint ventures
The company accounts for its interest in joint ventures using the proportionate consolidation method.

Income taxes
The company accounts for income taxes using the liability method. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change occurs.

3. Restricted cash

The company was required to initially set aside $541,732 as restricted cash under the terms of a purchase agreement. This amount is contingently payable to the vendors based on the cumulative cash flow associated with the property for a period of three years. In accordance with provisions which allow the company to make annual withdrawals, the company withdrew $122,248 during the year ended December 31, 2002 (2001 - $222,887) leaving a balance of restricted cash of $196,597. Notwithstanding these withdrawals, the terms of the purchase agreement could require a payment of $541,732 until June 30, 2003.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

4. Intangible assets

			2002
	Cost $	Accumulated amortization $	Net $
Land leases	36,182,694	11,107,228	25,075,466
Non-compete agreement	1,350,000	322,500	1,027,500
	37,532,694	11,429,728	26,102,966

			2001
	Cost $	Accumulated amortization $	Net $
Land leases	36,182,694	9,627,502	26,555,192
Non-compete agreement	1,350,000	187,500	1,162,500
	37,532,694	9,815,002	27,717,692

Amortization of intangible assets amounted to $1,614,726 for the year (2001 - $1,614,727).

5. Property and equipment

			2002
	Cost $	Accumulated amortization $	Net $
Buildings	47,097,552	9,889,049	37,208,503
Office equipment	159,516	127,754	31,762
Tenant improvements	1,388,030	766,566	621,464
Fencing, signs, paving and landscaping	839,909	439,861	400,048
Construction-in-progress	472,011	–	472,011
	49,957,018	11,223,230	38,733,788

A non-revenue producing tunnel which provides airside access was written down during the year for a loss of $350,973.

			2001
	Cost $	Accumulated amortization $	Net $
Buildings	47,510,473	8,606,064	38,904,409
Office equipment	159,516	124,200	35,316
Tenant improvements	1,483,270	757,586	725,684
Fencing, signs, paving and landscaping	839,909	400,274	439,635
Construction-in-progress	115,806	-	115,806
	50,108,974	9,888,124	40,220,850

Amortization of property and equipment amounted to $1,610,656 for the year (2001 - $1,316,987).

6. Long-term debt

	2002 $	2001 $
12.5% subordinated notes	53,000,000	41,500,000
Mortgages	15,466,581	29,209,141
	68,466,581	70,709,141
Less: Current portion of mortgages	422,052	811,863
	68,044,529	69,897,278

During the year ended December 31, 2002, mortgages in the amount of $13,238,983 were retired from cash raised through the issue of $11,500,000 notes payable and $2,648,143 in common shares to IAT Air Cargo Facilities Income Fund (the Fund) (note 7).

The aggregate principal payments required in the next five years and thereafter of the above mortgages are as follows:

Year ending December 31		$
	2003	422,052
	2004	453,041
	2005	486,312
	2006	2,916,634
	2007	470,844
	Thereafter	10,717,698
		15,466,581

Terms and conditions

The subordinated notes mature on June 10, 2027 with interest paid quarterly. The notes are not redeemable or retractable before that date, and are unsecured and subordinated to all other senior indebtedness, as defined.

The mortgages are payable in monthly instalments, including interest at rates from 6.95% to 7.80% (2001 - 6.80% to 7.65%). Buildings to which the mortgages relate or other property and equipment of the company, and an assignment of leases and rents, have been pledged as security. The mortgages have initial terms of 5 to 10 years and are normally renewed upon maturity.

Interest

Interest expense comprises:

	2002 $	2001 $
12.5% subordinated notes	6,305,009	5,187,500
Mortgages	1,356,981	2,145,203
Cancellation penalty	123,866	–
Interest income	(120,188)	(144,356)
	7,665,668	7,188,347

The company also had an unused operating facility of $750,000 as at December 31, 2002 and 2001.

7. Capital stock

Authorized –
100,000,000 common shares without par value
Issued –

	Number of shares	Amount $
Outstanding - December 31, 2000 and 2001	5,285,168	10
Issued - March 22, 2002	1,539,618	3
Outstanding - December 31, 2002	6,824,786	13

Notes to Financial Statements
for the Years Ended December 31, 2002 and 2001

During the year ended December 31, 2002, the company issued $2,181,369 of common shares to the Fund, $3 of which was allocated to capital stock and $2,181,366 of which was allocated to contributed surplus. During the year ended December 31, 2002, dividends amounting to $1,026,023 (2001 - $1,075,000) were declared to the Fund and charged against contributed surplus as follows:

	2002 $	2001 $
Contributed surplus - Beginning of year	5,841,177	6,916,177
Allocation from issuance of common shares - net of expenses associated with issue (note 11(d))	2,181,366	-
Dividends paid	(757,276)	(860,000)
Dividends declared and paid subsequent to year-end	(268,747)	(215,000)
Contributed surplus - End of year	6,996,520	5,841,177

Stock options

Under the terms of the 1997 Option to Purchase and Corporate Governance Agreements, LMT Management Ltd. (LMT), a company beneficially owned by the previous shareholders of the company, was granted options over a 10-year period to June 10, 2007 to purchase from the company up to 1,761,723 common shares from treasury for the aggregate purchase price of $2,351,900 to represent 25% of the outstanding shares of the company. Additional options are to be granted if the company issues shares of the company such that LMT retains the option to acquire 25% of the outstanding shares. During 2002, LMT was granted additional options to purchase 513,206 common shares from treasury corresponding with the March 22, 2002 share issuance. These additional options are exercisable over a 5-year period ending June 10, 2007.

A summary of the available options as of December 31, 2002 and 2001 and changes during the years ended on those dates is presented below:

		2002		2001
	Shares	Weighted average exercise price $	Shares	Weighted average exercise price $
Outstanding - Beginning of year	1,761,723	1.34	1,761,723	1.34
Granted	513,206	1.72	-	-
Outstanding - End of year	2,274,929	1.42	1,761,723	1.34
Options exercisable at year-end	1,761,723	1.34	1,409,376	1.34

Notes to Financial Statements for the Years Ended December 31, 2002 and 2001

8. Joint venture

The company has a 50% interest in a venture that owns a building at Vancouver International Airport. Summarized financial information relating to IAT's share of the joint venture is provided below.

	2002	2001
	$	$
Assets		
Current assets	92,767	164,399
Property and equipment	1,803,903	1,844,261
Liabilities		
Current liabilities	62,343	79,063
Long-term debt	1,845,340	1,889,568
Lease revenue	283,008	285,653
Administrative expenses	197,304	206,913
Net earnings after tax	74,537	64,867
Cash flows from operating activities	106,014	185,284
Cash flows from financing activities	(45,112)	(36,932)
Cash flows from investing activities	–	7,831

In addition to the property and equipment in the joint venture, IAT has provided a guarantee for its share of the venture's long-term debt.

9. Commitments

Operating leases

The company leases land from the Department of Transport and local airport authorities at airports in Western Canada. The lease terms are varied and expire in the period from 2008 to 2029. Lease rates are generally reviewed every five years.

Future minimum operating lease payments, using current established rates, are as follows:

	$
2003	2,326,549
2004	2,326,549
2005	2,326,549
2006	2,324,249
2007	2,323,099
Thereafter	28,846,230
	40,473,225

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

10. Income taxes

Significant components of the company's future tax assets and liabilities as at December 31, 2002 and 2001 are as follows:

	2002 $	2001 $
Future tax assets		
Non-capital loss carry-forwards	694,000	557,000
Other reserves	457,000	440,944
Total future tax assets	1,151,000	997,944
Future tax liabilities		
Book value of property and equipment and intangible assets in excess of tax	14,126,402	14,757,000
Net future tax liability	12,975,402	13,759,056

The company's non-capital loss carry-forwards expire commencing in 2006.

The reconciliation of income tax attributable to company operations computed at the statutory tax rates to income tax expense is as follows:

	2002 $	2001 $
Recovery based on combined federal and provincial tax rates	(791,000)	(250,000)
Large corporations tax	112,237	157,860
Change in future taxes resulting from tax rate reductions	–	(1,643,000)
Other	7,346	(41,082)
Recovery of income taxes	(671,417)	(1,776,222)

11. Related party transactions

a) Agreements with IAT Management Inc. (IAT Management)

Effective October 1, 1995, the company entered into agreements to pay property management, development, leasing, and marketing fees to IAT Management, a company controlled by the company's president and chief executive officer. During the year, the company was charged $1,314,903 (2001 - $1,360,692) under the agreements. The agreements are for a term of 10 years from June 10, 1997 and may be terminated with 12 months' notice by IAT Management. The property management fees are included in operating costs and are recoverable from tenants.

The company earned rental income of $75,230 (2001 - $71,353) from IAT Management during the year.

Notes to Financial Statements for the Years Ended December 31, 2002 and 2001

b) Agreement with LMT

Effective June 10, 1997, the company entered into an agreement with LMT, which has the right to nominate three of the company's five directors and to recommend the appointment of the executive officers of the company. LMT is to provide strategic management and advice to the company for a period of 10 years. The company will reimburse LMT for expenses incurred over the 10-year term of the agreement ($nil to date). The agreement may be terminated by LMT with 12 months' notice. LMT holds an option to purchase common shares of the company (note 7).

c) The advances to the Fund are due on demand and do not bear interest.

d) During the year, the company reimbursed the Fund $466,774 in respect of expenses associated with issuing common shares (note 7).

12. Financial instruments

The fair values of the company's financial assets and liabilities that represent net working capital approximate their recorded values due to their short-term nature.

The fair value of the company's mortgages is estimated to approximate their recorded value at December 31, 2002 and 2001.

It is not practicable to determine the fair value of the subordinated notes given the terms and conditions that would influence such a determination.

13. Segmented information and subsequent event

Management has determined that during the year the company operated within one business segment, which is the leasing of air cargo and related facilities in Canada.

During the years ended December 31, 2002 and 2001, Air Canada constituted 19% and 22% of total revenue, respectively. On April 1, 2003, Air Canada, obtained a stay of proceedings order under the Companies' Creditors Arrangement Act granting it protection from creditors' rights, including the enforcement of landlords' remedies. This order permits Air Canada to continue its operations and, subject to approvals, to determine which of its obligations, including leases, that it will continue to meet. At this time, the company is unable to determine the impact, if any, that this filing will have on the company's future operations.

IAT Air Cargo Facilities Income Fund

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